

**R & A ENTERPRISES  
D/B/A FOUNTAIN INN CONVALESCENT HOME  
FOUNTAIN INN, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1998  
AC# 3-FTN-J7**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 14, 1999

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with R & A Enterprises d/b/a Fountain Inn Convalescent Home, for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by R & A Enterprises d/b/a Fountain Inn Convalescent Home, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and R & A Enterprises d/b/a Fountain Inn Convalescent Home dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
May 14, 1999

The South Carolina Department of Health and Human Services has not received formal approval from the United States Health Care Financing Administration (HCFA) of Attachment 4.19D of the South Carolina State Plan under the Title XIX (Medicaid) for the contract periods beginning October 1, 1998, as required by regulations of the United States Department of Health and Human Services (HHS). The effects of any adjustments that may be necessary if the State Plan, as submitted, is modified to receive the approval of HCFA cannot presently be determined.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**FOUNTAIN INN CONVALESCENT HOME**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1998  
AC# 3-FTN-J7

|                                | <u>10/01/98-<br/>11/30/98</u> | <u>Beginning<br/>12/01/98</u> |
|--------------------------------|-------------------------------|-------------------------------|
| Interim reimbursement rate (1) | \$97.88                       | \$98.63                       |
| Adjusted reimbursement rate    | <u>96.76</u>                  | <u>97.51</u>                  |
| Decrease in reimbursement rate | \$ <u><u>1.12</u></u>         | \$ <u><u>1.12</u></u>         |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

**FOUNTAIN INN CONVALESCENT HOME**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1998 Through November 30, 1998  
AC# 3-FTN-J7

|  | <u>Incentives</u> | <u>Allowable<br/>Cost</u> | <u>Cost<br/>Standard</u> | <u>Computed<br/>Rate</u> |
|--|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u>             |                   |                           |                          |                          |
| General Services                               |                   | \$46.34                   | \$47.40                  |                          |
| Dietary  |                   | 11.14                     | 10.41                    |                          |
| Laundry/Housekeeping/Maint.                    |                   | <u>7.88</u>               | <u>7.86</u>              |                          |
| Subtotal                                       | \$ <u>.31</u>     | 65.36                     | 65.67                    | \$65.36                  |
| Administration & Med. Rec.                     | \$ <u>.76</u>     | <u>10.37</u>              | <u>11.13</u>             | <u>10.37</u>             |
| Subtotal                                       |                   | 75.73                     | <u>\$76.80</u>           | 75.73                    |
| <u>Costs Not Subject to Standards:</u>         |                   |                           |                          |                          |
| Utilities                                      |                   | 2.09                      |                          | 2.09                     |
| Special Services                               |                   | .66                       |                          | .66                      |
| Medical Supplies & Oxy.                        |                   | 6.32                      |                          | 6.32                     |
| Taxes and Insurance                            |                   | 1.23                      |                          | 1.23                     |
| Legal Fees                                     |                   | <u>-</u>                  |                          | <u>-</u>                 |
| <b>TOTAL</b>                                   |                   | <u>\$86.03</u>            |                          | 86.03                    |
| Inflation Factor (3.60%)                       |                   |                           |                          | 3.10                     |
| Cost of Capital                                |                   |                           |                          | 6.31                     |
| Cost of Capital Limitation                     |                   |                           |                          | -                        |
| Profit Incentive (Max. 3.5% of Allowable Cost) |                   |                           |                          | .76                      |
| Cost Incentive                                 |                   |                           |                          | .31                      |
| Effect of \$1.75 Cap on Cost/Profit Incentives |                   |                           |                          | -                        |
| Minimum Wage Add On                            |                   |                           |                          | <u>.25</u>               |
| <b>ADJUSTED REIMBURSEMENT RATE</b>             |                   |                           |                          | <u>\$96.76</u>           |

**FOUNTAIN INN CONVALESCENT HOME**  
Computation of Adjusted Reimbursement Rate  
For the Contract Periods Beginning December 1, 1998  
AC# 3-FTN-J7

|  | <u>Incentives</u> | <u>Allowable<br/>Cost</u> | <u>Cost<br/>Standard</u> | <u>Computed<br/>Rate</u> |
|--|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u>             |                   |                           |                          |                          |
| General Services                               |                   | \$46.34                   | \$47.40                  |                          |
| Dietary  |                   | 11.14                     | 10.41                    |                          |
| Laundry/Housekeeping/Maint.                    |                   | <u>7.88</u>               | <u>7.86</u>              |                          |
| Subtotal                                       | \$ <u>.31</u>     | 65.36                     | 65.67                    | \$65.36                  |
| Administration & Med. Rec.                     | \$ <u>.76</u>     | <u>10.37</u>              | <u>11.13</u>             | <u>10.37</u>             |
| Subtotal                                       |                   | 75.73                     | <u>\$76.80</u>           | 75.73                    |
| <u>Costs Not Subject to Standards:</u>         |                   |                           |                          |                          |
| Utilities                                      |                   | 2.09                      |                          | 2.09                     |
| Special Services                               |                   | .66                       |                          | .66                      |
| Medical Supplies & Oxy.                        |                   | 6.32                      |                          | 6.32                     |
| Taxes and Insurance                            |                   | 1.23                      |                          | 1.23                     |
| Legal Fees                                     |                   | <u>-</u>                  |                          | <u>-</u>                 |
| <b>TOTAL</b>                                   |                   | <u>\$86.03</u>            |                          | 86.03                    |
| Inflation Factor (3.60%)                       |                   |                           |                          | 3.10                     |
| Cost of Capital                                |                   |                           |                          | 6.31                     |
| Cost of Capital Limitation                     |                   |                           |                          | -                        |
| Profit Incentive (Max. 3.5% of Allowable Cost) |                   |                           |                          | .76                      |
| Cost Incentive                                 |                   |                           |                          | .31                      |
| Effect of \$1.75 Cap on Cost/Profit Incentives |                   |                           |                          | -                        |
| Minimum Wage and CNA Add-Ons                   |                   |                           |                          | <u>1.00</u>              |
| ADJUSTED REIMBURSEMENT RATE                    |                   |                           |                          | <u>\$97.51</u>           |

**FOUNTAIN INN CONVALESCENT HOME**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-FTN-J7

| <u>EXPENSES</u>                     | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DH&amp;HS</u> | Adjustments<br><u>Debit</u> | <u>Credit</u>           | Adjusted<br><u>Totals</u> |
|-------------------------------------|--|-----------------------------|-------------------------|---------------------------|
| General Services                    | \$ 729,177   | \$ 5,042 (4)                | \$ 1,408 (4)            | \$ 732,811                |
| Dietary                             | 157,125  | 21,702 (5)                  | 2,611 (4)               | 176,216                   |
| Laundry                             | 17,551   | -                           | 448 (4)                 | 17,103                    |
| Housekeeping                        | 67,579   | -                           | 1,742 (4)               | 65,837                    |
| Maintenance                         | 48,811   | -                           | 6,510 (2)<br>597 (4)    | 41,704                    |
| Administration &<br>Medical Records | 166,048  | 9 (4)                       | 2,121 (4)               | 163,936                   |
| Utilities                           | 33,007   | -                           | -                       | 33,007                    |
| Special Services                    | 10,398   | 1 (6)                       | -                       | 10,399                    |
| Medical Supplies<br>& Oxygen        | 111,784  | -                           | 11,852 (6)              | 99,932                    |
| Taxes & Insurance                   | 34,354   | -                           | 3,248 (3)<br>11,662 (4) | 19,444                    |
| Legal Fees                          | -  | -                           | -                       | -                         |



**FOUNTAIN INN CONVALESCENT HOME**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-FTN-J7

| <u>EXPENSES</u>             | Totals (From<br>Schedule SC 13) as<br>Adjusted by DH&HS | Adjustments      |                 | Adjusted<br>Totals |
|-----------------------------|---|------------------|-----------------|--------------------|
|                             |   | <u>Debit</u>     | <u>Credit</u>   |                    |
| Cost of Capital             | 90,693  | 10,502 (1)       | 1,893 (7)       | 99,790             |
|                             |   | <u>488 (2)</u>   |                 |                    |
| Subtotal                    | 1,466,527   | 37,744           | 44,092          | 1,460,179          |
| Ancillary                   | 12,648  | -                | -               | 12,648             |
| Non-Allowable               | 57,219  | 3,248 (3)        | 10,502 (1)      | 79,247             |
|                             |   | 15,538 (4)       |                 |                    |
|                             |   | 11,851 (6)       |                 |                    |
|                             |   | <u>1,893 (7)</u> |                 |                    |
| Total Operating<br>Expenses | <u>\$1,536,394</u>                                      | <u>\$70,274</u>  | <u>\$54,594</u> | <u>\$1,552,074</u> |
| TOTAL PATIENT DAYS          | <u>15,813</u>   | <u>-</u>         | <u>-</u>        | <u>15,813</u>      |
| Total BEDS                  | <u>44</u>   |                  |                 |                    |

**FOUNTAIN INN CONVALESCENT HOME**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-FTN-J7

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|--------------|---------------|
| 1                            | Fixed Assets  | \$461,026    |               |
|                              | Cost of Capital   | 10,502       |               |
|                              | Accumulated Depreciation  |              | \$264,238     |
|                              | Other Equity  |              | 196,788       |
|                              | Nonallowable  |              | 10,502        |
|                              | To adjust fixed assets and related depreciation to allowable<br>HIM-15-1, Section 2304<br>State Plan, Attachment 4.19D  |              |               |
| 2                            | Fixed Assets  | 6,510        |               |
|                              | Cost of Capital   | 488          |               |
|                              | Accumulated Depreciation  |              | 488           |
|                              | Maintenance   |              | 6,510         |
|                              | To capitalize roof replacement<br>HIM-15-1, Section 108.1   |              |               |
| 3                            | Nonallowable  | 3,248        |               |
|                              | Taxes and Insurance   |              | 3,248         |
|                              | To adjust insurance expense to allowable<br>HIM-15-1, Section 2304  |              |               |
| 4                            | Nursing   | 5,042        |               |
|                              | Nonallowable  | 15,538       |               |
|                              | Medical Records   | 9            |               |
|                              | Restorative   |              | 1,408         |
|                              | Dietary   |              | 2,611         |
|                              | Laundry   |              | 448           |
|                              | Housekeeping  |              | 1,742         |
|                              | Maintenance   |              | 597           |
|                              | Administration  |              | 2,121         |
|                              | Taxes and Insurance   |              | 11,662        |
|                              | To adjust fringe benefits and related allocation to allowable<br>HIM-15-1, Section 2304<br>State Plan, Attachment 4.19D |              |               |

**FOUNTAIN INN CONVALESCENT HOME**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-FTN-J7

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u>     | <u>CREDIT</u>    |
|------------------------------|---|------------------|------------------|
| 5                            | Dietary<br>Other Revenue  | 21,702           | 21,702           |
|                              | To reverse DH&HS adjustment to<br>offset income against related expense<br>State Plan, Attachment 4.19D |                  |                  |
| 6                            | Nonallowable<br>Special Services<br>Medical Supplies  | 11,851<br>1      | 11,852           |
|                              | To remove special (ancillary) services<br>reimbursed by Medicare<br>State Plan, Attachment 4.19D        |                  |                  |
| 7                            | Nonallowable<br>Cost of Capital   | 1,893            | 1,893            |
|                              | To adjust capital return to allowable<br>State Plan, Attachment 4.19D                                   |                  |                  |
|                              |   | <hr/>            | <hr/>            |
|                              | TOTAL ADJUSTMENTS   | <u>\$537,810</u> | <u>\$537,810</u> |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**FOUNTAIN INN CONVALESCENT HOME**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-FTN-J7

|  |                       |
|--|-----------------------|
| Original Asset Cost (Per Bed)                                    | \$ 15,618             |
| Inflation Adjustment   | <u>2.1814</u>         |
| Deemed Asset Value (Per Bed)                                     | 34,069                |
| Number of Beds   | <u>44</u>             |
| Deemed Asset Value   | 1,499,036             |
| Improvements Since 1981  | 59,668                |
| Accumulated Depreciation at 9/30/97                              | <u>(265,563)</u>      |
| Deemed Depreciated Value   | 1,293,141             |
| Market Rate of Return  | <u>0.067</u>          |
| Total Annual Return  | 86,640                |
| Return Applicable to Non-Reimbursable Cost Centers               | -                     |
| Allocation of Rent and Interest to Non-Reimbursable Cost Centers | <u>-</u>              |
| Allowable Annual Return  | 86,640                |
| Depreciation Expense   | 13,150                |
| Amortization Expense   | -                     |
| Capital Related Income Offsets                                   | -                     |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers  | <u>-</u>              |
| Allowable Cost of Capital Expense                                | 99,790                |
| Total Patient Days (Actual)                                      | <u>15,813</u>         |
| Cost of Capital Per Diem   | \$ <u><u>6.31</u></u> |

**FOUNTAIN INN CONVALESCENT HOME**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 1997  
 AC# 3-FTN-J7

|   |                |
|---|----------------|
| 6/30/89 Cost of Capital and Return<br>on Equity Capital Per Diem<br>Reimbursement | \$ 3.55        |
| Adjustment for Maximum Increase   | <u>3.99</u>    |
| Maximum Cost of Capital Per Diem  | \$ <u>7.54</u> |
| Reimbursable Cost of Capital Per Diem   | \$ 6.31        |
| Cost of Capital Per Diem  | <u>6.31</u>    |
| Cost of Capital Per Diem Limitation   | \$ <u>-</u>    |

## **COMMENTS AND RECOMMENDATIONS**

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

### **I. Transaction Classification**

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

### **II. Vending Machine and Meal Sales**

Income received from vending machines and meal sales were not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document the income derived from vending machine and meal sales, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received be deposited timely and intact.